

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BERNSTEIN TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T31-1-2)

The United States Postal Service hereby provides responses of witness
Bernstein to the following interrogatories of United Parcel Service: UPS/USPS-T31-
1-2, filed on September 12, 1997.

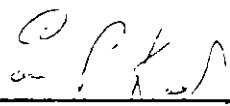
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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September 26, 1997

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TO INTERROGATORIES OF UPS

UPS/USPS-T31-1. Please refer to page 2 of your testimony, lines 2 through 11. Please confirm that the purpose described there was the primary objective for your analysis and the purpose described on lines 12 through 15 was a secondary objective. If not confirmed, please explain.

RESPONSE:

The purpose described at lines 12 through 15 -- "providing a guideline for postal pricing based on the principle of economic efficiency" -- is a secondary purpose in the sense that a full appreciation of this purpose requires that the first purpose of my testimony be fulfilled. I do not consider it to be of secondary importance, however.

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UPS/USPS-T31-2. Please refer to Table 11 on page 55 of your testimony.

- a. Please confirm that not all prices listed there are Ramsey prices. If not confirmed, please explain.
- b. Please list all prices in Table 11 that are not Ramsey prices and the reasons why substitutes were used.
- c. Will substituting alternative prices for Ramsey prices for some subclasses of mail change the other prices shown in Table 11 so that they are different from what they would be if Table 1 only showed the rates resulting from application of your Ramsey pricing formula?

RESPONSE:

- a. Confirmed.
- b. The prices of the six preferred subclasses of mail -- Periodicals in-county, classroom and nonprofit; Standard bulk nonprofit and bulk nonprofit ECR, and library rate -- are not Ramsey prices because the prices are based on the requirements of the Revenue Forgone Reform Act (RFRA). In addition, the price of Periodicals Regular mail, to which the prices of the preferred categories of Periodicals mail are tied, is not its Ramsey price for reasons discussed in my responses to ABP/USPS-T31-2 and NAA/USPS-T31-18.

The prices of Express Mail and Registered Mail were set at a level sufficient to cover these products' incremental costs for reasons discussed in my response to NAA/USPS-T31-6.

The prices of Insurance and COD were set so as to have a mark-up that was ten percent greater than the mark-up on the First-Class letter subclass following the reasoning presented in my testimony at page 61, line 22 to page 62, line 6.

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c. If the combined net revenues earned from the products discussed in sub-part (b) at their constrained prices are different than the combined net revenues earned at their Ramsey prices, then the Ramsey prices of the other remaining products would be affected. If the combined net revenues at the pure Ramsey prices were less than at the constrained Ramsey prices, then the Ramsey prices of the other products would be somewhat lower since less net revenue would have to be earned from these products. Conversely, if the combined net revenues at the pure Ramsey prices is more than at the constrained Ramsey prices, the other products would have lower Ramsey prices.

Note, however, that the constraints imposed on the six preferred subclasses by the RFRA are constraints that any postal rate schedule must satisfy. To the extent that the RFRA keeps the prices of the preferred subclasses lower than they would otherwise be, the prices of the other mail products must be higher, a fact that holds true whether Ramsey or non-Ramsey rates are proposed.

Regarding the other four mail products for which a constrained Ramsey price is imposed, Express Mail and Registry mail have constrained prices higher than their Ramsey prices while Insurance and COD have constrained prices lower than their Ramsey prices. Overall, the total net revenues from these four products at their constrained Ramsey prices is probably not too different from the net revenues that would be earned at their Ramsey prices, meaning that the net effect of these constraints on the Ramsey prices of the other mail products is small. Furthermore, the constraints on these four mail products do not affect the direction of the difference between the Ramsey and non-Ramsey prices. That is, the constrained and unconstrained Ramsey prices for Express Mail and Registered mail are both less than the products' non-Ramsey prices. Similarly, the constrained and unconstrained

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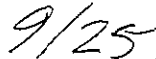
Ramsey prices of Insurance and COD are both greater than the products' non-Ramsey prices.

DECLARATION

I, Peter Bernstein, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.




(Signed)



(Date)

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Eric P. Koetting

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